

The African Development Bank Group Chief Economist Complex



Market Brief

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Contents:

1. Market Commentary
 - 1.1 Stock Markets
 - 1.2 Commodity Markets
 - 1.3 Exchange Rates
2. Regional Developments
3. Countries in Focus
4. Development Partnerships
5. Summary

1. Market Commentary

1.1 Stock Markets

During the week of 22 – 26 November 2010, the majority of African stock markets incurred losses alongside the major global stock markets in the U.S. and Europe. The latter dropped as tensions in Korea mounted and concern deepened that Europe's debt crisis will worsen. Among the ten monitored African stock markets, all except the one in Egypt recorded losses over the week. The stock market in Kenya registered the largest loss of 2.4%, followed by the markets in Morocco, which fell by 1.7%. Moderate losses of between 0.5% and 1.4% were observed for the markets in Nigeria, Uganda, Ghana, Tunisia, South Africa, and Mauritius. On the other hand, the market in Egypt recorded a marginal gain of 0.2%.

Equity Focus

Kenya: The Nairobi Stock Exchange Index decreased by 2.4% over the week, reflecting the globally subdued risk appetite of investors and the Central Bank of Kenya's decision to leave its key lending rate unchanged at 6%. The latter suggests the possibility that the monetary easing cycle may now be over. The bank has been cutting rates since December 2008 to drive down commercial bank lending rates and spur an economic recovery. Six interest rate cuts since March last year helped the volume of bank loans to rise by 6 % in the third quarter.

South Africa: The All Share Index declined by 0.7% over the week as risk aversion fed by debt woes in Europe hit riskier emerging market assets in general. The mining sector led the decline of the index on faltering metal prices.

1.2 Commodity Markets

Crude Oil (Brent): The price of Brent crude oil rebounded by 2.8% over the week, on signs of increased demand as refiners in China, the world's second-largest oil user, increased processing rates.

Cotton: The price of cotton tumbled by 9.5% over the week, heading for its biggest weekly drop since February 2009 as China, the world's biggest consumer and importer, broadened efforts to curb speculation and cool inflation.

1.3 Exchange Rates

The majority of African currencies depreciated against the U.S. dollar alongside the Euro. The Euro fell against the U.S. dollar by 1.9% over the week, as investors took refuge in the U.S. dollar in view of the Irish debt crisis which raised worries over the Euro's future. Twenty seven African currencies depreciated against the U.S. dollar, but most of them by less than the Euro. The CFA Franc suffered the most pronounced losses, recording a depreciation of 2.4% in the interbank currency markets, followed by the Libyan dollar, the Comoros Franc,

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Cape Verde Escudo, the Morocco Dirham, and the Zambian Kwacha, which registered significant losses of between 1.8% and 2.3% in line with the Euro which depreciated by 1.9% vis-à-vis the U.S. dollar. The other twenty one currencies registered losses of less than 1.5% against the U.S. dollar. The South African Rand, which had gained 5 % against the U.S. dollar earlier this year due in large part to foreign investors purchasing its relatively high-yielding debt, fell by 0.9% over the week as risk aversion fed by debt woes in Europe hit riskier emerging market assets in general. On the other hand, seven African currencies rose with the largest gain of 1.7% being posted by the Gambian Dalasi, recovering from the loss of 4.6% in the previous week. The currency of Angola remained unchanged vis-à-vis the U.S. dollar over the week.

2. Regional Developments

Africa: A report by the UN Conference on Trade and Development (UNCTAD) showed that GDP growth in most Least Developed Countries (LDCs) has not yet translated into people's wellbeing; poverty is still rising. According to the Report, during the economic boom period between 2000 and 2007, the economies of LDCs grew on average by over 7 % annually. However, over 50 % of the population in LDCs still lived in extreme poverty by 2007. The absolute number of the poor in Tanzania, for instance, increased by 1.3 million during that period of high growth. It argues that only two out of 49 LDCs - Botswana and Cape Verde - have graduated from LDC status in 30 years.

3. Countries in Focus

Egypt: The number of mobile phone subscriptions in Egypt rose by more than 10.5 million, or 20 %, from a year earlier to 63.9 million in September. Egypt is a country with 79 million inhabitants.

Ghana: The government has stepped up pressure on commercial banks to lower interest rates, as part of renewed efforts to

ease credit to small and medium businesses. Average bank lending rates in Ghana are around 28 % per year, which compares with the Bank of Ghana key policy rate that has fallen to 13.5 % thanks to a cumulative 500 basis points of rate cuts over the past year.

Kenya: The Government is looking to launch a \$500 million Eurobond by the end of the financial year ending June as the peaceful approval of a new constitution in an August referendum has bolstered confidence in Kenya. Ratings agency Standard & Poor's raised Kenya's credit rating this month to B+ from B.

Malawi: The country's inflation slowed to 6.7 % year-on-year in October from 7 % in September, driven by a deceleration of food inflation. Non-food inflation has remained fairly stable at 10 %.

Mauritius: The Bank of Mauritius sold just 257 million rupees (USD 8.6 million) or 6.69% of the five-year government bonds on auction. The central bank had offered 2 billion rupees (USD 67 million) of the bonds maturing on June 4, 2015. It received bids worth 2.8 billion rupees (USD 93.9 million) but rejected most. The bids ranged from a yield of 6.25 % to 7.50 %.

Morocco: The country's textile and clothing export revenues are likely to reach the level achieved in 2009 as demand from European countries has been recovering. The industry has been rebounding over the past five to six months after export revenues fell 30 % in the first half of 2010.

Nigeria: The Central Bank of Nigeria expected real GDP to grow 8.3 % in the fourth quarter compared to 7.9 % in the third quarter. Full-year economic growth is forecast at 7.9 %, up from 7.0 % in 2009.

Senegal: The government plans a \$500 million Eurobond issue for the first half of next year, replacing a \$200 million bond launched in 2009. The government plans to capitalize on improving market conditions on improving market conditions to secure better

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borrowing terms than on its existing 8.75 % coupon 2014 bond.

South Africa: Nedbank, the South African lender, has reshuffled the structure of its ailing retail unit to emphasize entry-level banking, small businesses and entrepreneurs, as it looks to turn around the money-losing business. Nedbank has been hit hard by soured home and vehicle loans.

Sudan: The Central Bank of Sudan asked banks and exchange bureau to buy foreign currency at a premium of 16.3 %, virtually matching the black market rate, as it seeks to counter a shortage of foreign currency. The Sudanese Pound, which is controlled as a managed float, has been under pressure because of risks ahead of the country's referendum in January.

Tanzania: The Central Bank of Tanzania reported that the country's overall balance of payments swung to a deficit of \$25.7 million in the year to September from a surplus of \$619.8 million a year ago. Imports of goods and services rose by 13.4 % while exports increased 5 %.

Zambia: The country's annual inflation slowed to 7.1 % in November from 7.3 % in October due to easing food prices, putting it on course to end 2010 well below the central bank's year-end target of 8 %.

Zimbabwe: The government will increase royalties on diamond sales to 15 % from the current 10 %. Royalties on gold and platinum would also go up to 4.5 % and 5 %, respectively, from the current 4 %.

4. Development Partnerships

African Agriculture Fund (AAF): The private equity fund, designed to respond to the food crisis on the continent, reached its first closing. The Fund will invest across the value chain and in all of Africa. The support to AAF, whose total target size is US\$ 300 million, is part of a coordinated response of a pool of European DFIs and African DFIs including the African Development Bank (AfDB) as limited liability partner investors.

China-Africa: While China sees Africa as a prime source for oil and minerals, it eyes consumer markets for Chinese goods in Africa too. Chinese consumer goods are making substantial inroads in African markets. According to analysts at Standard Bank, 20% of which is owned by the Industrial and Commercial Bank of China, the key trend is that Africa is seeing hundreds of thousands of micro Chinese entrepreneurs, procuring from China; Textiles make up 16 % of African purchases from China while footwear and clothing account for another 14 %.

Kenya-IMF: The IMF and Kenya reached a preliminary agreement for a \$500 million loan to support infrastructure and energy projects. The loan also aims to help implement the country's new charter, which includes augmenting foreign exchange reserves, reducing the government debt as a percentage of GDP to below 45 % by 2013-14, simplifying the tax code and overhauling value added tax, and implementing financial sector reforms, such that transaction costs are reduced.

5. Summary

During the week of 22 – 26 November 2010, most African stock and currency markets declined in line with the major global stock and commodity markets. Nevertheless, there was an influx of high-yield seeking capital in Mauritius' bond auction and the African Agriculture Fund reached its first closing of fund raising. To tap the global liquidity of high-yield seeking capital, governments in Senegal and Kenya plan to issue Eurobonds. Other positive developments continued to emerge in the continent – deceleration of inflation in Malawi and Zambia, acceleration of growth in Nigeria, recovery of textile manufacturing exports in Morocco, and rapid growth of the mobile phone industry in Egypt. On the other hand, challenges also emerged – a shortage of foreign currency in Sudan, and a switch from a surplus to a deficit position in Tanzania's balance of payments.

“In Tanzania, the overall balance of payments swung to a deficit of \$25.7 million in the year to September from a surplus of \$619.8 million a year ago....”

Appendix Table 1: Stock market movements – Week ending on 26 November, 2010

Stock Markets						
Region/Country	Index Name	Index Code	Market Capitalization (USD, million) (26-11-2010)	Weekly % change (26-11-2010)		Year-to-date % Change
				Week under review	Previous week	Dec 31 - Nov 26
Côte d'Ivoire	BRVM Composite Index	BRVM CI	5,402	▼ -0.04	▲ 0.07	▲ 25.4
Egypt*	CASE 30 Index	CASE30	19,041	▲ 0.18	▲ 0.92	▲ 10.1
Ghana	Ghana All Share	GSE	13,591	▼ -0.89	▲ 2.90	▲ 24.6
Kenya	Nairobi SE Index- NSE 20	NSE 20	15,123	▼ -2.38	▼ -0.33	▲ 37.7
Mauritius	Mauritius AllShares	SEMDEX	5,498	▼ -0.52	▲ 1.62	▲ 14.9
Morocco	Casa All Share Index	MASI	14,656	▼ -1.71	▲ 0.74	▲ 16.0
Nigeria	NGSE All Share Index	NGSE	50,561	▼ -1.38	▼ -1.61	▲ 18.2
South Africa	All Share Index	JALSH	721,788	▼ -0.69	▼ -0.93	▲ 12.7
Tunisia	Tunis se Tnse Index STK	TUNINDEX	3,013	▼ -0.86	▲ 0.04	▲ 23.1
Uganda*	Uganda SE All Share index	USE	5,587.6	▼ -1.00	▲ 1.99	▲ 65.6
Others						
USA	Dow Jones Industrial	DJ Index	3,470,214	▼ -1.00	▲ 0.10	▲ 6.4
France	CAC 40 Index	CAC40	908,387	▼ -3.41	▲ 0.76	▼ -5.3
Japan	Nikkei 225 Index	N225	2,382,894	▲ 0.17	▲ 3.06	▼ -4.8

* Value at end of 25 November, 2010

Appendix Table 2: Exchange rate movements – Week ending on 26 November, 2010

Exchange Rates (currency per US\$)								
Region/Country	Currency Name	Currency Code	Weekly % change (26-11-2010)		Year-to-date % Change			
			Week under review	Previous week	Dec 31 -Nov 26			
Africa								
Algeria	Algerian Dinar	DZD	▼	-0.83	▼	-0.55	▼	-2.4
Angola	New Kwanza	AON	▲	0.00	▲	0.00	▼	-3.4
Botswana	Pula	BWP	▼	-1.32	▼	-0.67	▼	-0.1
Burundi	Burundi Franc	BIF	▼	-0.26	▲	0.05	▲	0.7
Cape Verde	Escudo	CVE	▼	-1.86	▼	-1.86	▼	-10.3
Comoros	Comoros Franc	KMF	▼	-1.91	▼	-0.28	▼	-6.8
Congo. Dem. Rep. of	Congolese Franc	CDF	▲	1.20	▼	-0.02	▼	-11.1
Djibouti	Djibouti Franc	DJF	▲	0.42	▲	0.01	▼	-1.9
Egypt	Egyptian Pound	EGP	▼	-0.41	▲	0.02	▼	-4.9
Ethiopia	Birr	ETB	▼	-0.09	▼	-0.11	▼	-23.0
Gambia. The	Gambian Dalasi	GMD	▲	1.66	▼	-4.56	▼	-5.7
Ghana	New Cedi	GHS	▼	-0.89	▼	-0.08	▼	-0.9
Guinea	Guinea Franc	GNF	▲	1.23	▼	-0.54	▼	-28.9
Kenya	Kenyan Shilling	KES	▼	-0.18	▲	0.37	▼	-5.7
Liberia	Liberian Dollar	LRD	▼	-1.43	▲	1.45	▲	0.0
Libya	Libyan Dinar	LYD	▼	-2.28	▼	-0.72	▼	-0.4
Madagascar	Ariary	MGA	▼	-0.39	▲	0.20	▼	-2.3
Malawi	Kwacha	MWK	▲	0.29	▼	-0.37	▼	-3.3
Mauritania	Ouguiya	MRO	▼	-0.81	▼	-0.77	▼	-6.2
Mauritius	Mauritius Rupee	MUR	▼	-0.31	▼	-1.48	▼	-0.1
Morocco	Dirham	MAD	▼	-1.79	▼	-0.57	▼	-5.6
Mozambique	New Metical	MZN	▼	-0.28	▲	1.97	▼	-23.0
Nigeria	Naira	NGN	▼	-0.87	▲	0.98	▼	-0.1
Rwanda	Rwandan Franc	RWF	▼	-1.01	▼	-0.33	▼	-4.0
São Tomé & Príncipe	Dobra	STD	▼	-0.05	▼	-3.22	▼	-13.9
Seychelles	Seychelles Rupee	SCR	▼	-0.24	▲	0.08	▼	-8.9
Sierra Leone	Leone	SLL	▼	-1.18	▲	0.00	▼	-7.1
Somalia	Somali Shilling	SOS	▲	0.52	▼	-0.05	▼	-7.0
South Africa	Rand	ZAR	▼	-0.91	▼	-1.35	▲	5.0
Sudan	Sudanese Pound	SDG	▼	-0.13	▼	-0.40	▼	-2.1
Tanzania	Tanzanian Shilling	TZS	▲	0.98	▼	-0.35	▼	-9.6
Tunisia	Tunisian Dinar	TND	▼	-1.32	▼	-0.68	▼	-7.5
Uganda	Uganda Shilling	UGX	▼	-0.36	▲	0.03	▼	-16.7
Zambia	Zambian Kwacha	ZMK	▼	-1.78	▼	-0.55	▼	-1.8
CFA zone Countries*	CFA Franc	XOF	▼	-2.35	▼	-0.47	▼	-7.0
Others								
Europe	Euro	EUR	▼	-1.92	▼	-1.02	▼	-6.9
Japan	Yen	JPY	▼	-0.26	▼	-1.25	▲	10.4

Sources: ADB Statistics Department November 2010.

* In the interbank currency market